Supreme Court, U.S.
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93-181
No. _____

In The
Supreme Court of the United States
October Term, 1993

SHORTY, INC.,

Petitioner,

v.

Q.G. PRODUCTS AND G.L. GROUP, LTD.,

Respondents.

Petition For A Writ Of Certiorari To The United States Court Of Appeals For The Federal Circuit

PETITION FOR WRIT OF CERTIORARI

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QUESTIONS PRESENTED*

1. In a patent infringement action, can the doctrine of assignor estoppel be so far expanded as to preclude the invalidity and enforceability defenses asserted by the accused infringer (Defendant):

A. where the evidence shows Defendant never owned the patent-in-suit; and

B. where there is no privity;

and can such an extreme expansion of the assignor estoppel doctrine comport with the Supreme Court's reasoning in *Lear v. Adkins, Westinghouse v. Formica and Scott Paper v. Marcalus*.

2. Under Fed. R. Civ. P. 56(c), which requires that for the granting of summary judgment there be "no genuine issues of material fact," is it proper to grant summary judgment where there are material facts in dispute regarding the application of assignor estoppel.

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*Pursuant to Rule 29.1, Petitioner states that it is a corporation and has no parent corporation or subsidiaries.

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PETITION FOR WRIT OF CERTIORARI

Petitioner, Shorty, Inc. respectfully prays that a writ of certiorari be issued to review the judgment of the United States Court of Appeals for the Federal Circuit entered on May 7, 1993.

OPINIONS BELOW

The opinion of the Court of Appeals (A2) of which review is sought is reported at 992 F.2d 1211, 26 U.S.P.Q. 2d 1778 (Fed. Cir. 1993). The opinion of the district court (A13) is not reported.

JURISDICTION

The judgment of the Court of Appeals was entered on May 7, 1993. This writ is being filed within 90 days of the entry of judgment of the Court of Appeals.

This court has jurisdiction to review the judgment of the Court of Appeals under 29 USC § 1254.

STATUTORY PROVISIONS INVOLVED

This case includes the following statutory rules and provisions, which are set out in full in the appendix at A17:

35 USC § 102(f)
Fed. R. Civ. P. 56(c)

STATEMENT OF THE CASE

This is a patent infringement law suit brought by Plaintiffs Q.G. Products, Inc. ("Q.G.") and G.L. Group, Ltd. ("G.L.") , against Defendant Shorty, Inc. ("Shorty"). In this law suit, the Plaintiffs have alleged in a complaint filed in Federal District Court, District of Connecticut, that Shorty has infringed certain claims of U.S. Patent 4,989,438. Defendant filed an answer denying infringement and alleging that the patent-in-suit was invalid and unenforceable, based on both failure to comply with 35 USC 102(f) and on fraudulent misconduct by the inventor. Plaintiffs then filed a motion for summary judgment. The basis for Plaintiffs summary judgment motion was the

contention that the doctrine of assignor estoppel precluded Defendant from using the aforementioned invalidity and unenforceability defenses. A decision was thereafter rendered by Magistrate-Judge Smith who issued a memorandum (A13) recommending that the district court grant Plaintiffs' summary judgment motion. An objection to the Magistrate's recommended ruling was then timely filed requesting *de novo* review and alleging that the Magistrate's Memorandum was clearly erroneous in both its findings of fact and law. The district court then affirmed, approved and adopted the Magistrate's recommended ruling and judgment (A12) was entered. An appeal was taken to the Court of Appeals for the Federal Circuit which affirmed the District Court's decision on May 7, 1993 (A2).

In order to fully appreciate the factual and legal issues involved in this summary judgment motion, a clear understanding of the historical sequence of events is required. These events began on February 18, 1988, when Rudolphe J. Simon filed a patent application in the United States Patent and Trademark Office (PTO) entitled POWER ACTUATED DEVICE FOR INSTALLING METAL CORNER STRIP. The PTO designated this application as Serial No. 07-157,377 (hereinafter the '377 application).

The subject matter of the '377 application related to an electrically powered device for mechanically crimping protective corner strip along a corner formed by two intersecting wall panels of, for example, sheet rock or gypsum board. This electrically powered device is handheld and is shown as including a head portion having a 90° angle for mechanically crimping corner strip which similarly has a 90° angle.

The '377 application included nine (9) pages of description which described the device as including an elongated shoe which receives and compliments the metal strip, a pair of crimping elements supported on the shoe for attaching the metal strip to the wall, a toggle mechanism for moving the crimping elements between an inactive position and a crimping position and an electrically powered actuator supported on the shoe and connected to the toggle mechanism to move the crimping elements between their inactive position and the crimping position. The '377 application also included five (5) figures.

The '377 application was eventually abandoned and therefore has never issued to patent.

On October 19, 1989, Simon filed a second application in the PTO which was also entitled POWER ACTUATED DEVICE FOR INSTALLING METAL CORNER STRIP. This second application was designated by the Serial No. 07-423,950 ('950 or CIP application). The '950 application was a continuation-in-part or CIP of the '377 application. The '950 application included twenty-one (21) pages of description (as well as eleven (11) drawing figures) and disclosed a pneumatically powered as well as an electrically powered crimping device for installing metal corner strip. The '950 application included all of the figures set forth in the '377 application. In addition, the '950 application described many other structural features of a powered actuated device for installing metal corner strip which were not even remotely described in the earlier filed '377 application. Of these new features, perhaps the most important feature which was stressed both

in the '950 application as well as throughout the prosecution of the '950 application in the PTO is what is known as the "interchangeable head" feature. In accordance with the interchangeable head feature, the power actuated crimping device could be easily altered by exchange of one sized or configured head with a second sized or configured head so as to crimp corner beads having different configurations (e.g., 90°, 135°, etc.). This interchangeable head feature is the cornerstone of the '950 application and is found in each and every one of the thirteen claims in patent 4,989,438 ('438 patent) which eventually issued from the '950 application.

A second important new feature which is described in the '950 application is a pneumatically powered or air powered embodiment for the metal crimping device.

As is clear from the foregoing, the '377 application and the '950 application are mutually distinct with respect to the inventions being described and claimed.

Thus, the '950 application, (upon which the '438 patent issued) included the subject matter of the '377 application and added new subject matter regarding:

(1) interchangeable shoes;

(2) protective strips having different contours, i.e., contours other than that formed by two intersecting planes oriented at 90° relative to each other;

(3) shoes or retaining elements having different contours, i.e., other than the perpendicularly intersecting planar contour, complimentary to the contour of a selected protective strip;

(4) pneumatic actuator means.

All of the claims in the '438 patent require items (1)-(3) and some of the claims also require item (4). Thus, the effective filing date of all of the claims of the '438 patent is the October 19, 1989 filing date of the CIP application, since those claims are not supported by the disclosure of the original application and are therefore not entitled to the filing date of the original application.

On April 2, 1988, Simon entered into a business transaction with Marc Lallier, Guy Lallier, A. Lallier and Frank P. Lockhardt to form the Defendant, Shorty, Inc. Marc, Guy and A. Lallier contributed money as their contribution into Shorty. Mr. Lockhardt contributed certain legal services and Simon contributed the '377 application. Thus, as of April 2, 1988, Shorty owned the '377 application and all rights to the invention described in the '377 application. Thereafter, as a result of a falling out between Simon and the Lalliers, it was agreed among the principals of Shorty that Simon would be reassigned the '377 application and the invention described therein in exchange for Simon agreeing to repay $20,000 loaned to Simon by the Lalliers. Finally, on October 10, 1989, Simon completely relinquished any stock or any other interest he had in Shorty.

A few months *after* Simon completely relinquished any rights in and to Shorty, the '377 application became abandoned. The chain of title therefore for the '377 application is as follows:

Simon-to-Shorty-to-Simon-to-Abandonment.

When Simon had relinquished all rights in and to Shorty, Simon had started a new business called Sure Products Inc. to manufacture and market an electrically

powered and/or pneumatically powered corner bead crimping device. In connection with Sure Products, Inc. Simon filed on October 19, 1989, the '950 application (now the '438 patent-in-suit). Beginning in October or November of 1989, Simon began negotiating with Nastasi White Inc., a large construction company based in New York, to buy Sure Products Inc. Nastasi White, Inc. eventually took ownership of the '950 application which ultimately issued as the '438 patent. Shorty and Nastasi White, Inc., had no contact whatsoever during these negotiations and transactions. In other words, there was absolutely no relationship then or now between Nastasi White, Inc. and Defendant Shorty.

Ultimately, Nastasi White, Inc. sold the '950 application (now the '438 patent) to Plaintiff G.L. In turn, Plaintiff G.L has entered into an exclusive licensing arrangement with Plaintiff Q.G. Thus, the chain of title for the '950 application ('438 patent), and the invention set forth therein is as follows:

Simon-to-Nastasi White-to-G.L.

At no time has Defendant Shorty had any interest of any kind in the '950 application, the '438 patent or the invention set forth therein. At no time has Shorty or the principals of Shorty had any dealings whatsoever involving either the '950 application or the '438 patent including any dealings with Simon, Nastasi White, Q.G or G.L. vis-a-vis the '950 application or the '438 patent.

Notwithstanding the foregoing evidence, the Court of Appeals ruled that (1) although the claims in the '377 application were rejected and the '377 application abandoned, the application nevertheless had value; and (2)

although Shorty's assignment of the '377 application merely returned Shorty and Simon to their initial financial posture, Shorty nevertheless received value for the assignment. The Court of Appeals also ruled that Shorty's invalidity contentions tip the equities in favor of applying assignor estoppel despite the fact that Shorty has alleged improper inventorship and inequitable conduct relative to the '438 patent based on events which transpired *after* Shorty had relinquished all rights to the '377 application and prior to the '950 application (which Shorty never owned) even being filed.

The Court of Appeals also ruled that the '438 patent was merely an "elaboration" of the invention Shorty had reassigned to Simon and that Shorty's assignment of the invention and the '377 application "embraces" the '438 patent now asserted against Shorty.

Finally, the Court of Appeals decision was totally silent on the issue of privity.

REASONS FOR GRANTING THE WRIT

I. THE COURT OF APPEALS DECISION UNDERMINES THE PRINCIPLES OF *LEAR V. ADKINS*, *WESTINGHOUSE V. FORMICA* AND *SCOTT PAPER V. MARCALUS*

A. SHORTY NEVER OWNED THE PATENT-IN-SUIT, THE UNDERLYING PATENT APPLICATION OR THE UNDERLYING INVENTION AND SO ASSIGNOR ESTOPPEL CANNOT POSSIBLY APPLY.

The U.S. Supreme Court has severely restricted the use of estoppels of the type at issue herein. In *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969), the Supreme Court abolished licensee estoppel ruling that "the equities of the licensor do not weigh very heavily when they are balanced against the important public interest in permitting full and free competition in the use of ideas which are in reality a part of the public domain". The doctrine of assignor estoppel was also limited by the Supreme Court in *Westinghouse Elec. & Mfg. Co. v. Formica Insulation Co.*, 266 U.S. 342 (1924) and *Scott Paper Co. v. Marcalus Mfg. Co.*, 326 U.S. 249 (1945). While assignor estoppel has survived Supreme Court scrutiny, implicit in its application is prior ownership by the assignor and privity in the relationship between the assignor and accused infringer. Notwithstanding the law on estoppel, the C.A.F.C. has, in effect, expanded the doctrine of assignor estoppel far beyond that contemplated by *Westinghouse* or *Scott Paper* since Shorty never owned the '438 patent, or the underlying application, or invention; nor is there privity between the parties. Certainly, the Supreme Court's reasoning in *Lear* compels that Shorty be able to introduce evidence

which would invalidate the '438 patent in view of the "important public interest in permitting full and free competition in the use of ideas." In order to allow the public full access to ideas in the public domain, it is important to reverse this case and stop the expansion of assignor estoppel to a point which prevents a party who never owned the patent-in-suit (or underlying application or invention) from contesting its validity.

The doctrine of assignor estoppel simply does not apply to the facts of this case. Assignor estoppel is an equitable doctrine mainly concerned with the balance of the equities between the parties. This doctrine prevents one who has assigned the rights *to an invention* as set forth in a patent (or patent application) from later contending that what was assigned is a nullity. The estoppel also operates to bar other parties in privity with the assignor. *Diamond Scientific v. Ambico, Inc.*, 848 F.2d 1220, 6 U.S.P.Q. 2d 2028, 2030 (Fed. Cir. 1988).

In the present case, we are faced with two different patent applications, (i.e., '377 and '950 applications) which describe two different inventions, (i.e., an electric powered cornerbead crimper set forth in the '377 application having no interchangeable head features and being incapable of pneumatic powering and a cornerbead crimper set forth in the '950 application (which issued as the '438 patent) which requires an interchangeable head feature and which may be pneumatically powered). The invention that Shorty owned (as described in the '377 application) and the invention now owned by Q.G. (as described in the '438 patent) are not the same invention; and so assignor estoppel *cannot* apply as a matter of law. Shorty recognizes that it is the "invention" which is at

issue here. However, the fact remains that the "invention" which Shorty acknowledges having owned and the invention now described and claimed in the '438 patent-in-suit are different thereby precluding the use of the doctrine of assignor estoppel to the facts of this case.

The interchangeable shoe feature (which actually comprises at least the *three* (3) distinct structural features identified as items 1-3 above) was part of every claim *initially filed* in the '950 application. Indeed, there can be no argument that the "interchangeable shoe" feature was considered by the patentee of the '438 patent to be anything but an "important aspect" of the '438 invention since throughout the prosecution of the '438 patent, counsel for Plaintiffs argued vehemently as to the important and critical nature of the "interchangeable shoe" feature.

In its ruling, the Court of Appeals has ignored its previous holdings which has made it abundantly clear that a patent is defined by its claims and that each and every element of a claim constitutes the "invention". See *Perkin-Elmer Corp. v. Westinghouse Electric Corp.*, 822 F.2d 1528 (Fed. Cir. 1987) (each element of a claim is material and essential); *Lemelson v. U.S.*, 752 F.2d 1538 (Fed. Cir. 1985) (each element in a claim is material and essential). In short, there is no valid law which states that certain limitations in a claim may be ignored as being "immaterial" or "non-essential". Indeed, the '438 patent is defined by the totality of the elements in each claim; with each and every claim requiring the "interchangeable shoe" feature.

Thus, the Court of Appeals has ignored its own rulings in finding that the disclosures made in the '377

application "embraces" the '438 patent since the '438 patented invention is defined by the totality of the elements in each claim (of which an important and critical component is the "interchangeable head" feature; which was not even remotely suggested *or ever claimed* in the '377 application).

The Court of Appeals also committed clear error in finding that the interchangeability feature was merely an "elaboration" on the invention disclosed and claimed in the '377 application. In accordance with U.S. Patent Law, the addition of items (1) – (4) as described above constitute "new matter" which requires a new patent application and oath. The '950 application was not filed in order to more fully describe and provide support for elements which were disclosed but inadequately described in the '377 application. The '950 application adds elements (in the guise of seven additional figures and twelve additional pages of description) which were not even remotely disclosed or hinted at in the '377 application; and which resulted in a second invention that was so significantly different from that described in the '377 application as to require the filing of a second application and execution of a second oath by the inventor.

Simon had assigned (on April 2, 1988) to Shorty only the rights to the '377 application and the invention described therein and did *not* assign to Shorty any rights to any future related applications or inventions. In July 1988, Shorty reassigned *only* the '377 application to Simon and could reassign only the '377 application to Simon since Shorty had rights to only the '377 application (and since the '950 application was not yet in existence). Indeed, during a deposition of Simon, Simon provided

absolutely no evidence that he had invented the concept of interchangeable heads or pneumatically powered tools prior to the filing of the '377 application or prior to April 2, 1988 (when he assigned the '377 application and the invention therein to Shorty). Mr. Simon testified that he told his attorney Frank Lockhardt in an oral conversation the various physical properties and all of the variations of his tool and then prepared disclosure documents which were sent on to a patent firm for preparation of the '377 application. None of these disclosure documents even remotely suggest the use of pneumatic power or the fact that interchangeable heads can be used to crimp corner beads of different configurations. Thus, the Court of Appeal's reliance on Mr. Simon's deposition testimony that the disclosures made in the '377 application "embraces" the '438 patent or that the interchangeability feature was merely an "elaboration" on the invention disclosed in the '377 application cannot be shown or substantiated by the facts in this case (A9).

The strength and validity of Shorty's position is reflected in Shorty's defense. The thrust of this defense involves Shorty's allegations that Simon did *not* invent either the interchangeable head or pneumatic power features found in the '438 patent; but instead misappropriated these inventive concepts from Marc Lallier, a principle of Shorty. Shorty then alleges that Simon filed the '950 application and executed a fraudulent oath that it was Simon who invented a power actuated cornerbead crimper with the interchangeable head and pneumatic power features. Thus, the basis for Shorty's defense that the '438 patent is invalid involves facts and circumstances primarily surrounding the newly added 12 pages of

description in the '438 patent; and not to the descriptive material common to both the '377 application and '438 patent. The Court of Appeals ignored this aspect of Shorty's defense in its ruling. Thus, should the Court of Appeals judgment stand, the allegedly fraudulent acts which Shorty will be estopped from presenting to the District Court at trial in its defense will not relate to the '377 application (or its contents) which was admittedly owned by Shorty; but will instead relate to circumstances and events arising after Simon and Shorty severed their relationship and which surround the filing of a different patent application ('950) of which Shorty neither owned nor had any involvement whatsoever. Therefore, to apply the "equitable" doctrine of assignor estoppel to this factual scenario is not warranted under the facts or the law.

B. THE COURT OF APPEALS FAILED TO ADDRESS CRUCIAL ISSUES OF PRIVITY

Shorty temporarily owned the '377 application but never owned the '950 application or '438 patent. Simon filed the '950 application subsequent to severing all ties with Shorty, i.e., there was no privity between Simon and Shorty, as of the filing date of the '950 application or at any time since the filing date of the '950 application. Thus, Plaintiffs are asserting the applicability of the doctrine of assignor estoppel to prevent Defendant from challenging the validity of a patent which was never owned by Defendant, which issued on a continuation-in-part patent application which has never been owned by Defendant and which sets forth an invention that had not yet been conceived at the time of Defendant's temporary

ownership of an ancestor of the continuation-in-part application upon which the patent issued. Significantly, and what must surely constitute error, the Court of Appeals ruling simply ignores this critical issue of lack of privity.

For assignor estoppel to be properly applied, *privity* between the alleged infringer and the assignor must be found to exist *at the time of the alleged infringement*. For example, in *Diamond Scientific v. Ambico Inc., supra*, the doctrine of assignor estoppel was applied to a company *in privity* with an inventor *at the time of the alleged infringement* who had previously assigned all rights to an invention described in a single pending patent application when the company subsequently sought to invalidate patents issuing from the application. In *Shamrock Technologies, Inc. v. Medical Sterilization, Inc.*, 903 F.2d 789, 14 U.S.P.Q. 2d 1728 (Fed. Cir. 1990), the doctrine of assignor estoppel was applied to Defendant Medical Sterilization Inc. (MSI), a corporation *in privity* with an inventor *at the time of the alleged infringement* who had assigned rights to his inventions set forth in two patent applications, when MSI later sought to invalidate patents issuing on the applications.

Thus, in all of the cases where assignor estoppel has been applied, the relationship between the alleged Defendant infringer and the assignor was a very close relationship at the time of the alleged infringement. Typically, the factual scenario is one where the inventor has assigned his patent to Employer A and the inventor then leaves Employer A to work for or with Employer B which infringes upon the patent. Typically, the inventor has some control or influence in Company B so that privity is

found. Shorty never owned the '438 patent or '950 application. Therefore Shorty is *not* an assignor of the '438 patent. Indeed, under the facts of the present case, Mr. Simon, as the inventor and first assignor of the '438 patent may well be estopped under the doctrine of assignor estoppel from alleging the patent-in-suit to be invalid. However, as there is no relationship between Shorty and Simon (nor was there any relationship between Shorty and Simon vis-a-vis the '438 patent), Mr. Simon's estoppel can in no way be conferred or transferred to Defendant Shorty. None of the above cases support the proposition that the doctrine of assignor estoppel is applicable to prevent a party which once owned an ancestor application to a CIP application or a patent issuing thereon from seeking to invalidate the patent granted on the CIP application. Simply stated, the doctrine of assignor estoppel was not intended to apply to factual scenarios such as are presented in this case.

Since (1) Shorty has never owned the '950 application or the '438 patent, (2) the inventor, Simon has never conveyed any rights to the invention set forth in the '950 application or the '438 patent to Shorty, and (3) there was no privity between Shorty and Simon (or for that matter, the successors to Simon, Nastasi White, Inc or G.L.) at any time during the existence of the '950 application or the '438 patent, the doctrine of assignor estoppel does not apply to an attempt by Shorty to raise defenses of invalidity and/or unenforceability with regard to U.S. Patent No. 4,989,438. However, the Court of Appeals simply ignored this entire issue.

The Court of Appeals did not correctly apply principals of equity and fairness. Shorty never sold the '438

patent or the '950 application which ultimately issued as the '438 patent to Simon or anyone else. What Defendants did transfer e.g., the '377 application, Defendants transferred in exchange for repayment of a loan, and therefore there is no "valuable consideration" or at least there is a dispute on the material facts concerning any "valuable consideration". Defendant is not attacking the validity of the very patent rights which it assigned to Simon, but is attacking the validity of *distinct* patent rights which were *never* assigned to Simon. Therefore, it is Defendant's position that equity and fairness clearly favor Shorty over the Plaintiffs.

II. THE COURT OF APPEALS DECISION UNDERMINES THE PRINCIPLE OF *ANDERSON V. LIBERTY LOBBY*

Fed. R. Civ. P. 56 is clear. It says that summary judgment should not be granted unless there are *no* "genuine issues of material fact" in dispute. So when a party raises genuine issues of material fact, it is only fair to assume that summary judgment should be denied. But that is not what happened in this case. Summary judgment was granted.

There are serious disagreements between the parties regarding important material facts, namely, whether the "invention" of the '377 application is the same "invention" as disclosed in the '438 patent; whether Shorty ever owned the "invention" of the '438 patent; and whether there is privity between Shorty and Simon (an issue totally ignored by the Court of Appeals) to support the invention of the assignor estoppel doctrine. The Court of

Appeals affirmed the granting of summary judgment based on the incorrect assumption that those material facts were undisputed; and also relied upon disputed testimony by the inventor Simon (A9).

There is extensive case law holding that in a summary judgment proceeding, the trial court must view the evidence in a light most favorable to the non-moving party, and draw all reasonable inferences in favor of the non-moving party. *Adduces v. S.H. Kress & Co.*, 398 U.S. 144, 158-159, 90 S.Ct. 1598, 1608-9 (1970). Disregarding conflicting testimony clearly violates this principle, because taking most testimony in a light most favorable to the non-moving party means giving fair consideration to the opposing testimony – not ignoring it.

The purpose of Rule 56 is to avoid an unnecessary trial, but it is not intended to substitute for trial when it is necessary to find material facts. *Meyers v. Brooks Shoe, Inc.*, 912 F.2d 1459, 1461 (Fed. Cir. 1990). A factual question is material and should be reserved for trial if a reasonable jury could find for the non-moving party based at least in part on its determination of the factual questions. *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 248, 106 S.Ct. 2505, 2510, 91 L.Ed. 2d 202 (1986).

In order to provide Shorty with a full and fair opportunity to get its case to a trial, it is important to reverse this case and modify the law to prevent to the lower courts from ignoring relevant evidence.

CONCLUSION

For each of the foregoing reasons, a writ of certiorari should be granted.

Respectfully submitted,

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United States Court of Appeals for the Federal Circuit

92-1247

Q.G. PRODUCTS, INC. and
G.L. GROUP, LTD.,

Plaintiffs-Appellees,

v.

SHORTY, INC.,

Defendant-Appellant.

Judgment

ON APPEAL from the United States District Court/District of Connecticut
in CASE NO(S). 91-79

This CAUSE having been heard and considered, it is ORDERED AND ADJUDGED:

AFFIRMED

ENTERED BY ORDER OF THE COURT

DATED MAY 7 1993 /s/ Francis X. Gindhart
Francis X. Gindhart, Clerk

ISSUED AS A MANDATE: May 28, 1993

United States Court of Appeals for the Federal Circuit

92-1247

Q.G. PRODUCTS, INC. and
G.L. GROUP, LTD.,

Plaintiffs-Appellees,

v.

SHORTY, INC.,

Defendant-Appellant.

Allen D. Brufsky, Kramer, Brufsky & Cifelli, P.C., of Southport, Connecticut, argued for plaintiffs-appellees.

Michael A. Cantor, Fishman, Dionne & Cantor, of Windsor, Connecticut, argued for defendant-appellant.

Appealed from: U.S. District Court for the
District of Connecticut

Judge Daly

United States Court of Appeals for the Federal Circuit

92-1247

Q.G. PRODUCTS, INC. and
G.L. GROUP, LTD.,

Plaintiffs-Appellees,

v.

SHORTY, INC.,

Defendant-Appellant.

DECIDED: May 7, 1993

Before MICHEL, *Circuit Judge*, COWEN, *Senior Circuit Judge*, and RADER, *Circuit Judge*.

RADER, *Circuit Judge*.

The United States District Court for the District of Connecticut granted the summary judgment motion of Q.G. Products, Inc. (QG). The district court found that Shorty, Inc. infringed QG's United States Patent No. 4,989,438 ('438). The district court also determined that the doctrine of assignor estoppel barred Shorty's invalidity defense. Because no genuine disputes of material fact prevent application of the doctrine of assignor estoppel, this court affirms.

BACKGROUND

In 1987, Guy Lallier, Marc Lallier, and Rudolphe Simon discussed a design for a device for fastening metal corner strips to wall boards. In February 1988, Simon filed patent application No. 07/157,377 ('377) for such a device. The '377 application disclosed a device that holds a metal corner strip in place while mechanically fastening it to the ends of two wall boards. A "shoe" on the device holds the protective strip in alignment during fastening.

The '377 application depicted a corner strip and a shoe. The application made no mention of interchangeable shoe sizes. Claim 1 of the application also described "power operated means" for the device. Narrower claims specifically mentioned a motor and a solenoid.

Also in February 1988, the Lalliers and Simon agreed to form Shorty, Inc. Simon assigned his rights to the '377 application to Shorty for a $20,000 loan and stock in the company. The Lalliers contributed money to the corporation. The parties executed a written contract reflecting this agreement on April 2, 1988.

On April 24, 1988, a Patent & Trademark Office examiner rejected all of the '377 claims. Due to a falling-out between Simon and the Lalliers, Shorty reassigned the '377 application to Simon in July 1988 in exchange for $3,000, a promise for $17,000 more, and return of the Shorty stock. This assignment is QG's basis for assignor estoppel. Simon filed one amendment and then abandoned the application in December 1989.

In October 1989, however, Simon had already filed a continuation-in-part application, No. 07/423,950 ('950), of the '377 application. The '950 application claimed the same device, but added an interchangeable head feature, pneumatic power means, and a pistol grip. The interchangeable head allows the operator to switch shoe sizes for different corner angles (e.g., 90 degrees, 135 degrees, etc.). The '950 application matured into the '438 patent.

Simon assigned his interest in the invention and the '950 application to Nastasi-White, Inc., who in turn assigned the application to the plaintiff, G.L. Group (GL). GL (and its exclusive licensee QG) then filed an infringement action against Shorty. Shorty asserted that the '438 patent was invalid under 35 U.S.C. § 102(f) (1988). Shorty claimed that Guy Lallier worked with Simon on the invention and thus should have been listed as a co-inventor. QG moved for summary judgment asserting

that assignor estoppel barred Shorty's invalidity defense. The magistrate judge recommended that the district court grant QG's summary judgment motion. The district court followed that recommendation.

DISCUSSION

This court has had few occasions to apply the doctrine of assignor estoppel. In first recognizing the doctrine in *Diamond Scientific Co. v. Ambico, Inc.*, 848 F.2d 1220, 6 USPQ2d 2028 (Fed. Cir. 1988), *cert. dismissed*, 487 U.S. 1265 (1988), this court held that assignment of a patent or an invention and a patent application for value estops the assignor from later contending that the assigned property was valueless. To prevent unfairness, this court refused to allow the assignor of a patent to benefit from an assignment, only to benefit again from asserting the patent's invalidity. *Id.* at 1224-25. Thus, this court precluded an assignor, accused of infringement, from defending on grounds of invalidity. *Id.* at 1224-25. A balancing of the equities, inter alia, between the parties in *Diamond* dictated that result. *Id.* at 1225.

Where a party assigns a patent, and the equities demand application of estoppel, the analysis is straightforward. The assignor implicitly attests to the value of the assigned patent. The assignor's representations cover no more nor less than the assigned rights. Thus, a defendant may submit evidence to help properly construe or narrow the claims of the assigned patent, while estopped to challenge their validity. *Westinghouse Elec. & Mfg. v. Formica Insulation Co.*, 266 U.S. 342, 351 (1924); *Diamond*, 848 F.2d at 1222.

Where, however, a party assigns an "invention" or application, and the equities advise application of estoppel, the analysis is more elaborate. Unlike assignment of a patent, a party's representations upon assignment of an application are not as clearly bounded. In *Westinghouse Electric*, the Supreme Court addressed the issue:

> It is apparent that the scope of the right conveyed in such an assignment is much less certainly defined than that of a granted patent, and the question of the extent of the estoppel against the assignor of such an inchoate right is more difficult to determine than in the case of a patent assigned after its granting. When the assignment is made before patent, the claims are subject to change by curtailment or enlargement by the Patent Office with the acquiescence or at the instance of the assignee, and the extent of the claims to be allowed may ultimately include more than the assignor intended to claim. This difference might justify the view that the range of relevant and competent evidence in fixing the limits of the subsequent estoppel should be more liberal than in the case of an assignment of a granted patent.

Westinghouse Electric, 266 U.S. at 352-53.

In stating that the allowable range of evidence "should be more liberal," the Court did not advocate a liberal definition of the invention in favor of the assignee. Rather the Court advocated admission of more evidence to determine carefully the limits of the estoppel. In other words, because the bounds of the invention are less certain, the Court recommended consideration of ample evidence to define the assignor's representations.

In this case, this court first decides whether the district court was correct to apply the doctrine of assignor estoppel. This determination requires a balancing of the equities of the case. At the time of the assignment in July 1988, Shorty implicitly represented to Simon that the invention in the '377 application had some value. For the assignment, Shorty received $3,000, stock, and a promise for $17,000 more.

Although the examiner initially rejected all the claims of the '377 application in April 1988, this rejection did not render the application valueless. Such rejections often occur as part of the normal application process. Although Shorty's assignment merely returned the parties to their pre-incorporation financial posture, Shorty nevertheless received value for the assignment. Thus Shorty represented that the assigned property had value.

Shorty's invalidity contentions in the district court also tend to tip the equities in favor of applying assignor estoppel. One of Shorty's primary grounds for asserting invalidity of the '438 patent in the court below was 35 U.S.C. § 102(f). Shorty answered the complaint by alleging that, *inter alia*, Simon should have listed Guy Lallier as a joint inventor in the '377 application. Shorty contended that Guy Lallier had invented the corner fastening device before November 1987. At the time Shorty reassigned the application to Simon in July 1988, the Lalliers (Shorty) knew that the February 1988 patent application did not list Guy Lallier as an inventor. Nonetheless, Shorty assigned its rights under the application to Simon for value. Thus, they acknowledged the value of the application with full knowledge of the potential issue under section 102(f). For this reason as well, this court

upholds the district court's weighing of the equities and decision to apply the doctrine of assignor estoppel to Shorty.

Next this court determines whether the district court correctly ascertained the limits of the assignment. If the '438 patent claims an invention within the assignment agreement, the assignor estoppel doctrine operates to prevent Shorty from contesting the validity of the patent. The assignment agreement provided that "Simon is the inventor of a drywall corner bead clincher, also known as a Power Actuated Device for Installing Metal Corner Strip, upon which application no. 157,377 is pending before the U.S. Patent Office." Under the agreement, Shorty "waive[d] any claim to said invention or contracts relating thereto, and reassign[ed] its rights thereto to Simon, and agree[d] that neither it nor any of its remaining principals shall have any interest hence forth in said invention."

Shorty asserts that it did not assign the invention in question. That is, Shorty assigned the '377 application, not the '950 application which later matured into the '438 patent. Because the '950 application was a continuation-in-part of the '377 application, Shorty contends that the differences between the two applications preclude assignor estoppel. Shorty contends that the '377 application did not even mention interchangeable heads, a feature of the '438 patent.

In *Diamond Scientific*, this court applied the estoppel doctrine in the face of credible invalidity evidence: "The fact is that [the assignor] assigned the *rights* to his invention, irrespective of the particular *language* in the claims

describing the inventions when the patents were ultimately granted." 848 F.2d at 1226. Thus this court's analysis is not limited to the claims of the '377 application. This court also noted that the assignor could present evidence of prior art to narrow the scope of the claims, possibly avoiding infringement. *Id.*

The '438 patent claims a device comprising "a plurality of interchangeable shoes" and "means for releasably mounting each of said shoes on the device." The '377 application did not claim or disclose a releasable mount for interchangeable shoes. Yet, during prosecution of the '950 application, the examiner determined that "the skilled artisan within this art is quite cognizant of the concept of constructing tools with replaceable parts on the hand tools . . . [t]his is a commonly known practice." The examiner found that this aspect of the invention in the '950 application was obvious in light of the prior art. Thus, shoe interchangeability was not a material difference between what Shorty assigned and the '438 patent.

Moreover Simon testified that he demonstrated a prototype with interchangeable shoes to the Lalliers before the assignment. Simon testified that he first developed the ability to interchange shoes in early 1985, more than two years before Shorty reassigned the invention to Simon. Because Simon assigned all his rights to Shorty – including shoe interchangeability – Shorty necessarily assigned those rights back to Simon.

The '438 patent also discloses use of pneumatic power means for actuating the device. While not specifically disclosing pneumatic powering, the '377 application claimed power operated means in claim 1. More

important, dependent claim 2 in the '377 application recited the use of a general motor in sweeping terms:

> 2. A device as set forth in claim 1 wherein said power operated means comprises a motor having a fixed part mounted in fixed position relative to said retaining means and a reciprocally movable part connected to said operating means.

The language of this claim could cover a motor using electric power, such as the solenoid disclosed in the application, or pneumatic power, or even hydraulic power. The language in both claims 1 and 2 show that the interchangeable shoe and pneumatic power features were part of the '377 application which Shorty assigned for value.

Moreover, Shorty overstates the importance of these two features in the prosecution leading to the '438 patent. The prosecution history reveals that the examiner allowed the application because Simon later claimed a transversely mounted pistol grip, not because of more specific language about interchangeable shoes or power operating means. The examiner's interview summary record, indicating that an agreement had been reached, stated that the agreed-to claims would "clearly defin[e] the mounting (i.e., operable connection) attaching means to the shoe and . . . relat[e] the pistol grip and shaft relative to one another and the housing rather than relative to the horizon. As agreed, the claims define over the art . . . because the attaching means are not mounted on and operably connected to the shoe." Before this agreement, Simon made several unsuccessful amendments concerning the interchangeable shoe feature and the

power operated means. Thus, the prosecution history shows that the examiner allowed the claims after insertion of language on the transversely mounted pistol grip.

The pistol grip depicted in the '950 application, however, is virtually identical to that shown in the '377 application. Simon carried this inventive aspect from the '377 application over to the '950 application. In all, the prosecution history shows that the '438 patent merely elaborates on the invention Shorty reassigned to Simon.

Shorty mistakenly compares only the matter disclosed in the '377 application to the '438 patent. As this court stated in *Diamond*, Shorty assigned "the *rights* to [the] invention." 848 F.2d at 1226. Shorty's assignment of the invention and the '377 application embraces the '438 patent now asserted against Shorty.

CONCLUSION

The equities in this case weigh in favor of applying the assignor estoppel doctrine to Shorty. Furthermore, the scope of Shorty's assignment to Simon was at least as broad as the invention claimed in the '438 patent. Therefore, the district court properly estopped Shorty from contesting the validity of the '438 patent. In light of Shorty's virtual admission of infringement, this court affirms the district court's summary judgment.

COSTS

Each party shall bear its own costs for this appeal.

AFFIRMED

After careful review and over objection, Magistrate Judge Smith's Recommended Ruling on plaintiffs' summary judgment motion is hereby AFFIRMED, APPROVED and ADOPTED.

SO ORDERED.

/s/ T. F. Gilroy Daly
T. F. Gilroy Daly, U.S.D.J.
CLERK
U.S. DISTRICT COURT
[Illegible]

UNITED STATES DISTRICT COURT
DISTRICT OF CONNECTICUT

Q.G. PRODUCTS, INC. and
G.L. GROUP, LTD.,

-Plaintiffs

- v -

SHORTY, INC.,

-Defendant

CIVIL 5:91CV00079 (TFGD)

(Filed Jan. 30, 1992)

MEMORANDUM

Plaintiffs' motion for summary judgment should be granted on the issues of invalidity and infringement. The doctrine of assignor estoppel bars the defendant from attacking the patent's validity, and defendant's infringement of the '438 patent is virtually admitted. *Cf.* ¶33 of plaintiffs' Local Rule 9(c)(1) statement, Dkt. #14, *with* ¶33 of defendant's response; *also see* Lallier deposition at 58-69; Exhibit B to plaintiffs' memorandum. The magistrate adopts and incorporates by reference plaintiffs' Rule 9(c)(1) statement. In those limited respects where defendant contends that plaintiffs' "facts" are disputed, the magistrate finds that the disputes are not material, or that the defendant has simply offered a conclusory statement or argument to controvert the facts. The magistrate also adopts and incorporates herein the arguments and conclusions set forth in plaintiffs' reply memorandum.

Defendant Shorty and its individual principal shareholders assigned the '377 patent application to Simon in July, 1988. They are, therefore, estopped from attacking the validity of the '377 application, or from otherwise

capitalizing on alleged defects in the application process. As Judge Cabranes explained in *American Fence Co., Inc. v. MRM Sec. Systems, Inc.*, 710 F.Supp. 37, 40 (D.Conn. 1989), the rationale underlying the doctrine is the "unfairness of allowing a person or entity to defend a lawsuit by attacking the validity of a patent after already "having received valuable consideration for [an assignment of it]."

While it is true that there are differences between the '377 application and the later '950 application, the '950 application is a continuation-in-part (CIP) of the '377 application. To whatever extent the '950 application continues in part or incorporates the '377 application, the doctrine of assignor estoppel also bars the defendant from attacking the validity of the '950 application, or the '438 patent into which the '950 application matured.

In stressing the differences between the '377 and the '950 applications, defendant Shorty downplays the inescapable reality that, even though it was the '950 application which matured *directly* into the '438 patent, it is the disclosures made in the '377 application which are central to the '438 patent. The original claims of the '377 application contemplated other equivalent operating means, such as the pneumatic means described in the '950 application and the '438 patent. The court rejects defendant Shorty's contention that the claims of the '377 application are confined to only an electrical power source. Rather, the court finds, that the '377's claims include equivalent operating means, such as pneumatic means.

The '377's failure to disclose heads which are *interchangeable* is not material. Contrary to defendant Shorty's assertion, interchangeability of heads is not the point of

novelty of the '438 patent. Rather, the novelty of the '438 patent lies in the inventions disclosed in the '377 application, an application which Shorty assigned to Simon. The '950 application continued the '377 application in part and, by providing for interchangeability, elaborated on the invention disclosed in, and falls within the claims of, the '377 application.

Here, the defendant Shorty is an assignor of a patent application that was continued in part by another application, which matured into the '438 patent. Defendant Shorty's status as an assignor of an application leading to a patent equitably estops Shorty from attacking the validity of that patent. That the '950 application intervenes between the '377 application and the '438 patent does not save the defendant from the effects of the estoppel, nor should it. The plaintiffs in this case are bona fide purchasers of patent rights which defendant Shorty, and others, assigned to Simon for valuable consideration. Having obtained the benefit of their bargain, defendant cannot now be permitted to attack the validity of the very patent rights which it assigned to Simon.

With respect to infringement, it is clear to the magistrate that claims 1, 2, 4, 6, 9, 11, and 13 of the '438 patent "read" on defendant's Beadmaster device illustrated in plaintiffs' Exhibit 32, which has the "means" for performing the identical function as in the claims of the '438 patent. *Pennwalt Corp. v. Durand-Wayland, Inc.*, 833 F.2d 931, 934 (Fed. Cir. 1987). The defendant Shorty, therefore, infringes on these claims.

For the foregoing reasons, and substantially on the basis of the arguments set froth in the text and footnotes

of plaintiffs' initial and reply memoranda, plaintiffs' motion for summary judgment on the defense of invalidity and on the issue of infringement should be granted. Defendant is free to timely seek an Article III judge's review of this recommendation. 28 U.S.C. §636(b); Rule 72, F.R.Civ.P.; Local Rules of Civil Procedure and for U. S. Magistrate Judges. Having presided at the preliminary injunction hearing in two related cases involving the same parties, as well as a lengthy chambers conference, the magistrate finds that oral argument would not be of assistance to him.

Dated at Hartford, Connecticut, this 30th day of January, 1992.

/s/ Thomas P. Smith
THOMAS P. SMITH
U. S. MAGISTRATE JUDGE

STATUTORY PROVISIONS INVOLVED

This case involves the following statutory rules and provisions, which are set out in full below:

35 U.S.C. Section 102 Conditions for patentability; novelty and loss of right to patent.

A person shall be entitled to a patent unless –

(f) he did not himself invent the subject matter sought to be patented

Rule 56. Summary Judgment.

c) The motion shall be served at least 10 days before the time fixed for hearing. The adverse party prior to the day of hearing may serve opposing affidavits. The judgment sought shall be rendered forthwith if the pleadings, depositions, answers to interrogatories and admissions on file, together with the affidavits, if any, show that there is no genuine issue as to any material fact and that the moving party is entitled to a judgment as a matter of law. A summary judgment, interlocutory in character, may be rendered on the issue of liability alone although there is a genuine issue as to the amount of damages.